

## WHO MUST FILE

Refer to the table below to see if you are required to file.

Marital & Filing Status	Age as of December 31, 1995	You must file if your gross income was:
Single or Head of Household	Under 65	\$1,845 or more
Married Filing Separate	65 or older	\$3,325 or more
Married Filing a Joint Return	Both under 65	\$3,690 or more
	One spouse 65 or older	\$5,170 or more
	Both spouses 65 or older	\$6,650 or more

## Residents of Montana (Full-Year)

You are taxed on all income earned in 1995—**regardless of where** you earned it. You are a Montana resident if you live in Montana or if you maintain a permanent home in Montana. You don't lose your residency when you leave the state temporarily. You lose your Montana residency **only** when you establish permanent residence outside of Montana with no intentions of returning.

You must file a 1995 Montana Individual Income Tax return if you meet the minimum filing requirements. However, if you are generating a Montana net operating loss or have carryovers, you must file even if you do not meet the minimum filing requirement in order to perfect the losses.

## Where's My Refund?

Taxpayers expecting refunds from current or back year returns will be able to check the status of their refunds by calling 406-444-9840. This is a 24 hour-a-day service, accessible from both touch tone and rotary dial telephones.

When calling to inquire about a refund you will need to provide the following information:

- 1) The Social Security number corresponding to the first name shown on the return.
- 2) The amount of the refund requested as shown on the return.

The status of a refund will only be available if the tax return has been added to the Department's data base by our data entry staff.

## Other Filing Information

Generally the Montana statute of limitations is five years. Normally records should be kept during this time. Records for basis of property and carryforwards may need to be kept longer.

— If you had a filing requirement, but did not file a return, there is no statute of limitation preventing the assessment of tax penalties and interest. However, statutes of limitation do not allow for the payment of refunds if the delinquent return is filed more than five years after the due date of the return.

— Part of your Social Security benefits may be subject to Montana tax. Complete the worksheet in this booklet to determine the taxable portion of Social Security.

— If you're responsible for the financial affairs of a deceased person, you must file a return for the deceased if his/her income prior to death exceeds the minimum filing requirements. If the deceased taxpayer was married, a joint return can be filed. This would include the income of the deceased spouse from the beginning of the year to the date of death and the income of the surviving spouse for the entire tax year.

— A Montana Fiduciary Return (Form FID-3) must be filed for the deceased person. This would include income received from the date of death for the balance of the estate tax year. An estate or trust cannot be filed on Form 2.

— Montana residents whose only North Dakota income is wages, don't have to pay North Dakota income tax. North Dakota does require that you file an information return (Form NW-R). You can obtain Form NW-R from:

Office of State Tax Commissioner  
State Capitol  
Bismarck, North Dakota 58505

— North Dakota residents who had Montana state income tax withheld on income earned in Montana, can get a refund under the Montana-North Dakota Reciprocal Agreement. File a Montana income tax return (Form 2) with Montana NR-1 affidavit. You may obtain both forms from the Montana State Income Tax Division.

## FOR A FASTER REFUND FILE ELECTRONICALLY!

Beginning January 12, 1996, participating tax preparers can electronically file your income tax return with the Montana Dept. of Revenue in conjunction with the electronic filing of your federal return. You will have the option of direct depositing your refund into your bank account. An electronically filed return is processed the day after it is received which drastically reduces the time it takes for you to receive your refund. In our pilot year, refunds processed from an error free return were issued in six to eight days. Contact your tax preparer to inquire about this service.

## S Corporation Election

If you are a shareholder in a Montana corporation which has elected Federal S Corporation status, you are generally treated as a small business corporation for Montana income tax purposes. Shareholders must include the net income or loss in Montana Adjusted Gross Income. (See pages 4 and 5 of instructions for more information.)

## Amended Returns

If you made an error or want to change your original filing, file an amended return on Montana Form 2X. You can only receive a refund on an amended return if the amended return is filed within 5 years from the due date of the original return.

## Tax Preparer Contact

To streamline resolving questions related to your return, we have included an area for you to authorize the Department to contact your preparer. Your initials in the box(es) on the back of Form 2 and Form 2S significantly speed the processing of your return. If you are filing jointly or married filing separate on the same form, **both spouses** must initial the boxes. If you initial these boxes, the Department may contact the preparer or you for additional information. You will however, continue to receive notification of any formal adjustments made to your tax liability. The Department is implementing this new procedure at the request of the **Montanans' for Improving Tax Administration (MITA)**.

## Which form should I use?

### Short Form

You may file Form 2S (Short Form) if you answer "yes" to **all** of the following:

- You were a Montana resident for **all** of 1995.
- **NEW** You are filing from a Montana address.
- You are filing single, head of household, or married filing a joint return.
- You wish to use **only** the standard deduction or federal income tax paid or withheld. (To itemize further use Forms 2 and 2A).
- The **only** tax credit you have is Elderly Homeowner/Renter Credit.
- Your **only** income is from one or more of the following: wages, pensions and annuities, interest and dividends, fees (such as jury duty), alimony, unemployment, winnings, prizes, awards, other miscellaneous income.

### Long Form

You **must** file the long form (Form 2), if you answer "yes" to **any** of the following:

- You were a resident of Montana for only part of 1995.
- You were a nonresident of Montana with income from Montana sources.
- You are married, filing a separate return.
- You are using an itemized deduction schedule.
- Your income includes any of the following: income from business or profession, rents, royalties, partnerships, trust or S corporation income, capital gain(s)
- You are claiming tax credits.

### When to File

Your return for calendar year 1995 must be **postmarked** before midnight April 15, 1996. If you operate on a fiscal year, your return must be **postmarked** before midnight the 15th day of the fourth month following the close of your fiscal year.

### Where to File

**For RETURNS WITH PAYMENTS**—Mail to:  
Income Tax Division  
Dept. of Revenue  
PO Box 6308  
Helena, MT 59604-6308

### Extension of Time to File

**A four month extension for filing may be obtained by submitting form EXT-95. A copy of Federal Form 4868 will not be accepted nor will telephone requests for extensions be accepted. You must use Form EXT-95 to report and remit the amount you and/or your spouse expect to owe. Attach your remittance to the Montana extension form.**

A copy of Federal Form 2688 is acceptable when requesting an additional 2-month extension.

Legislation has changed the requirements to obtain a Montana extension. The law provides that to be granted an extension of time for filing a return, you must have paid toward your current year's liability by estimated tax payments, withholding tax, or a combination of both, either: 1) 90 percent of your current year's total tax liability or 2) an amount equal to 100 percent of your previous year's total tax liability. Detailed instructions are provided on Form EXT-95.

An extension of time to file your return is not an extension of time to pay. When you file your return, if you still owe money after subtracting your withholding, estimated payments and 2EC credit and do not meet the above requirements, a late pay penalty of 10% of the unpaid tax (a minimum of \$5.00) will be assessed. When filing a tax return with an extension, interest must be added to any tax due at a rate 3/4% per month (.0075), computed from the original due date of the return.

When filing a calendar year return, the request must be postmarked on or before April 15, 1996. For a fiscal year file, the extension must be marked by the 15th day of the fourth month following the close of your fiscal year. Extensions are not provided for an individual who is not a resident of Montana or who is outside the United States on the due date.

### If You File or Pay Late

You will be subject to a late filing penalty of 5% of your unpaid tax (a minimum amount of \$5) on all late returns filed. In addition, you will be subject to a 10% late payment penalty on the unpaid tax (a minimum of \$5). When filing after the due date, you will be subject to interest charges at 3/4% per month (.0075) on the unpaid balance. The interest and penalty charges can be avoided by filing your return with full payment on or before April 15, 1996. If you have a valid extension, the late filing penalty applies only if you file after the expiration of the extension.

**Note:** If you and your spouse file separately, penalties and interest are calculated on each separate tax liability. Income tax assessments issued by the department and not paid in full within 60 days are subject to a 5% deficiency penalty.

If a return is filed without full remittance of all tax, penalties and/or interest due, you are advised to make regular payments pending contact by the Department's collection staff.

### Underpayment Penalty of Estimated Tax

In 1995 you must have paid through estimated installments or a combination of withholding and estimated installments the smaller of 1) 90% of your current year's tax liability after credits, or 2) an amount equal to 100% of your previous year's total tax liability. If you did not meet this requirement, you may be subject to an underpayment penalty. You may use the short method to figure your penalty only if:

1. You made no estimated tax payments (or your only payments were Montana withholding); or
2. You paid estimated tax in four equal amounts by the due dates.

If you cannot use the short method call the Department at 406-444-0290 to order an underpayment penalty form.

**Note:** A taxpayer who derives at least 66 2/3% of gross income from farming or ranching is not subject to estimated tax.

#### Short Method

1. Enter your 1995 tax after all non-refundable credits from line 52 on Form 2 or line 32 on Form 2S (Total liability if married filing separately on the same form). \_\_\_\_\_
2. Multiply line 1 by 90% (.90). \_\_\_\_\_

3. Enter your total Withholding, amount credited from prior years tax and Elderly Homeowner Renter credit from line 57 on Form 2 or line 36 on Form 2S. (Total payments if married filing separately on the same form). \_\_\_\_\_
4. Subtract line 3 from line 1. If the result is \$500 or less, do not complete the rest of the form. \_\_\_\_\_
5. Enter your 1994 tax (Line 52 of 1994 Form 2 or line 32 on 1994 Form 2S) (Total liability if married filing separately on the same form). \_\_\_\_\_
6. Enter the smaller of line 2 or line 5. \_\_\_\_\_
7. Enter the amount from line 3 plus any estimated payments made. \_\_\_\_\_
8. **Total Underpayment for the year.** Subtract line 7 from line 6. (If zero or less, stop here; you do not owe the underpayment penalty) \_\_\_\_\_
9. Multiply line 8 by .05986. This is your **Underpayment Penalty** for 1995. Enter here and on line 62 of Form 2 or line 39 on Form 2S. \_\_\_\_\_

## **Introduction**

### **Name, Address, and Social Security Number**

Each year we mail Montana Individual Income Tax forms to taxpayers who filed returns the previous year. If you have indicated you don't need forms and instruction booklets, you will receive a postcard with an addressed label. If you didn't receive a booklet or a postcard with a removable label, print or type your name, address, and social security number in the appropriate spaces. (If you are sending in a back year return or amended return, please use your most current address.)

If married, fill in name and social security number for both you and your spouse. Montana law requires all individuals who file a tax return include their social security number. If you have questions on any tax forms call 1-406-444-2837.

### **Filing Status (Check the appropriate box)**

**Note:** Married persons with different residency statuses cannot file on the same form. For additional information please call the Department.

#### **Box 1 Single. Use Column A.**

#### **Box 2 Married, Filing Joint Return. Use Column A.**

**Note:** (Married couples who both have taxable income normally receive a tax benefit by filing separately. See box 3 or 4.)

You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both.

#### **Box 3 Married, Filing Separate Returns on the Same Form. Use Columns A and B.**

If both you and your spouse had income in 1995, you can file separate returns even if you filed a joint Federal return. Each of you must claim your own income, deductions, and exemptions. If one itemizes deductions, so must the other. Be sure each signs the return.

#### **Box 4 Married, Filing Separate Returns on Separate Forms. Use Column A.**

If you and your spouse want to receive your own refund or pay your own tax or if you have different residency statuses, you must file separate returns on separate income tax forms.

#### **Box 5 Married, Filing Separate Return and Spouse is not Filing. Use Column A.**

A spouse who had any gross income or was claimed as a dependent by another taxpayer can't be claimed as an exemption deduction.

#### **Box 6 Head of Household: (Box 3 of Form 2S)**

If you qualify for Federal purposes you may file your Montana return as head of household (**Attach Federal Form 1040 or 1040A pages 1 and 2**).

### **Residency Status (Check the appropriate box)**

#### **Box 1 Full-Year Resident**

Check this box if you were a Montana resident in 1995 (even though you may have been out of the state temporarily during the year). Include income from all sources, both inside and outside of Montana. Credit may be taken for taxes paid to other states.

#### **Box 2 Full-Year Nonresident**

Check this box if you were not a Montana resident for any of the 1995 tax year. (See instructions pages 13 and 14.)

#### **Box 3 Part-Year Resident**

Check this box if you permanently established or ended your Montana residency during the tax year. Be sure to give the date you changed your residency. (See instructions pages 13 and 14.)

## **Exemptions**

### **Line 1—Yourself**

You may take one exemption. (Students: take one exemption even though you are claimed as a dependent on your parents' return.) Take one additional exemption if blind or 65 or over; take two additional exemptions if you are blind and 65 or over.

### **Line 2—Your Spouse**

If you file a joint return you may take one exemption for your spouse. Take one additional exemption if your spouse is blind or 65 or over; take two additional exemptions if your spouse is blind and 65 or over. If married filing separately you must claim your own exemption(s).

### **Line 3—Children and Other Dependents**

You're entitled to one exemption for each person who qualifies as a dependent. The dependent schedule on line 3 must be completed. Additional dependents must be listed on a separate sheet and attached to the return. To qualify as a dependent, a person must meet the following requirements:

#### **A. Income**

The dependent must have less than \$1,480 gross income. This requirement doesn't have to be met if your child was under 19 or a full-time student under age 24 for at least five months of the year.

#### **B. Support**

The dependent must have received over half of his or her support from you. If you file a joint return, the support can be from you or your spouse.

#### **C. Married Dependent**

The dependent must not have filed a joint return with his/her spouse.

#### **D. Citizenship or Residence**

The dependent must meet the federal requirement for citizenship or residence.

#### **E. Relationship**

The dependent must meet at least one of the requirements listed below:

1. Be related to you (or your spouse if you're filing a joint return) in one of the following ways:

* Child	Stepbrother	Son-in-law
Stepchild	Stepsister	Daughter-in-law
Mother	Stepmother	or, if related by
Father	Stepfather	blood:
Grandparent	Mother-in-law	Uncle
Brother	Father-in-law	Aunt
Sister	Brother-in-law	Nephew
Grandchild	Sister-in-law	Niece

\* Includes a child placed in your home by an authorized legal adoption agency.

2. Must have lived in your home as a member of your household for the entire year (includes foster child).

### **Line 4—Handicapped dependent children**

You're entitled to an additional exemption for a handicapped child provided the handicapped child is:

1. Claimed as a regular exemption; and
2. At least 50% permanently disabled as certified by a physician. The physician's certification must state that the child's handicap constitutes a disability of greater than 50% to the body as a whole. **A copy of the physician's certification must be submitted with your return each year.**

### **Line 5—Total number in boxes, columns A and B**

## LINE BY LINE INSTRUCTIONS FOR FORM 2

Instructions for filing Form 2S see pages 11-13.

### Income Reported on Federal Return

#### Lines 6 through 18—

Enter all items of income you reported on your Federal Income Tax return. This includes the portion of Social Security income that is taxable for federal purposes. Attach copies of applicable federal schedules and forms.

Note: Married persons filing separately must prorate income, based on percentage of ownership.

#### Adjustments from Income—

Please specify the adjustment.

#### Line 19

**Individual Retirement Account (IRA)**—Enter the amounts from lines 23a and 23b of Federal 1040, or lines 15a and 15b of Federal 1040A on line 19 of Form 2.

If your filing status for Federal and State is the same no adjustment will be necessary on line 23 or line 32.

**Note:** If your filing status on Federal is married filing jointly, and on your Montana return you checked Box 3, 4 or 5, married and both filing separately, you may have to make an adjustment on line 23. Your allowable IRA deduction for Montana may be different than your Federal IRA deduction. See instructions for line 23, Form 2, page 5

**Self Employment Tax**—Enter amount from line 25 of Federal Form 1040.

**Self Employment Health Insurance Deduction**—

Enter the amount from line 26 of Federal Form 1040.

**Keogh/SEP**—Enter amount from line 27 of Federal 1040.

**Penalty on early withdrawal of savings** enter amount from line 28 of Federal 1040.

**Alimony** — Enter amount from line 29 of Federal 1040.

**Moving Expense** — Enter amount from line 24 from Federal 1040 and attach Federal Schedule 3903 or 3903-F.

**Line 20**—Subtract line 19 from line 18 to arrive at your Federal adjusted gross income. Total of columns A and B must agree with Federal adjusted gross income.

### Modifications to Federal Adjusted Gross Income:

You may have to adjust the total income you reported on line 20 to determine the amount you should report on line 35 as Montana adjusted gross income.

#### Additions to Income

**Line 21**—Include interest income from bonds and other obligations of other states or their political subdivisions. Interest income from Montana bonds is *not* taxable.

**Line 22**—Your federal refund is income in 1995 if you itemized deductions on your Montana return last year, and used federal withholding/estimates as deduction(s) or filed a Form 2S in 1994 and used your Federal tax as a deduction. Refer to page 6, Tax Benefit Rule.

**Caution:** Do not include any portion of your Federal refund that is due to earned income credit.

**Line 23**—Other Additions:

#### Passive and Rental Income and Losses

Married couples who file a joint federal return and do not file a joint Montana return are required to make an adjustment if they deduct rental losses or other passive activity losses. Under federal law, married couples who lived together at anytime in 1995 and file separate Montana returns are not allowed to deduct rental/passive activity losses.

When filing separate returns, the allowable losses for couples must be reported by the person who owns the property. If it is held jointly, the income/loss must be split according to legal ownership in the property.

If you filed a joint federal return and a separate Montana return, make the following adjustment: Enter on line 23 the amount of federal rental/passive loss reported on line 12.

Any excess loss must be carried forward until a joint Montana return is filed, a disposition of the passive activity occurs, or net income is generated from the passive activity which can be offset by the losses. Your federal and Montana rental/passive loss carry forwards may be different if your filing status on Federal is different from Montana. It would be helpful to complete and attach a separate federal form 8582 for Montana when filing jointly for federal and separately for Montana.

#### Social Security

Beginning January 1, 1994, your taxable social security benefits may increase. If your income exceeds the new "modified adjusted gross income" your Social Security benefits will be taxed at a higher rate (85%). The new threshold amounts are: \$44,000 for married individuals filing jointly, \$22,000 for married individuals filing separately on the same form and \$34,000 for single and head of households. Social security amounts under these new thresholds will be taxed under the old method. To determine your "modified adjusted gross income" and to calculate the portion of your Social Security benefits taxable to Montana, complete the Social Security worksheet in this booklet. (**Note:** You must complete the retirement worksheet on page 6 of this booklet before beginning the Social Security worksheet). If the portion of your benefits taxable to Montana is greater than the portion taxable to Federal, enter the difference on line 23, Form 2.

#### Independent Liability Funds

If you received distribution of principal from an independent liability fund, you must report the amounts received if you previously took a deduction for the contribution.

#### Capital Loss

If you and your spouse file separately, you must claim your own capital loss which is limited to \$1,500 each. If the capital loss claimed on line 10 is greater than \$1,500 add the excess on line 23.

#### S Corporation Income & Losses

If you are a shareholder in a Federal S Corporation, AND:

- | IF   | YOUR MONTANA<br>INCOME IS:   |
|--|--|
| 1. Your corporation is a Federal S corporation which is doing business in Montana.   | ⇒ Same as federal (no change)  |
| 2. Your corporation is a Federal S corporation which is doing business in Montana and elected C corporation status for Montana purposes prior to 1/1/92. | ⇒ Report only the dividends actually received on line 32. Add back any losses and subtract any income included on line 18. |

**S Corporation Income & Losses CONTINUED...**

3. Your S Corporation does not do business in Montana.  $\Rightarrow$  Same as federal (no change)

If either category #1 or #2 applies to you **and** your S Corporation pays federal tax on excess capital gains, you are required to add to your Montana income your shareholder's percentage of the federal tax. Questions? Call (406) 444-2837.

**Allocation of Income** See special information on page 7, line 32.

**Montana Net Operating Losses**

To compute your Montana net operating loss, complete and attach Form NOL-1. If your net operating loss for federal and for Montana differ, add your federal net operating loss on line 23 and subtract your Montana net operating loss on line 32.

**Dependent Care Assistance Credit**—If you took dependent care assistance as a deduction on Federal Schedule C and will be taking the Montana dependent care assistance credit, you must add back the amount of assistance deduction that the Federal credit is based on.

**IRA Deductions**

If you are married and file jointly on both your federal and state returns, **no adjustments are required.**

If you filed separately on federal and jointly on state use the federal worksheet. This will determine your allowable IRA deduction for Montana. Compare the amount from the federal worksheet with the amount on line 19 Form 2. If the amount on line 19 is greater, enter the difference on line 23. If the amount is less, enter the difference on line 32.

**Note:** You may wish to complete a separate Federal Form 8606 with information for Montana purposes. Keep this for your records.

**If you filed married filing jointly on your federal return and changed to married filing separately on your Montana return, and:**

**IF**

1. You and your spouse are not covered by a retirement plan at work  $\Rightarrow$

**OR IF**

2. You or your spouse are covered by a retirement plan and:  
A. Your Federal adjusted gross income is \$10,000 or over  $\Rightarrow$   
B. Your Federal adjusted gross income is under \$10,000

**YOUR IRA DEDUCTION IS:**

The same as federal up to a maximum of \$2,000; except for the nonworking spousal IRA which you must add back line 23.

**Zero**

A. Your IRA deduction taken on line 19 must be added back on line 23. You are not allowed an IRA deduction.

B. Go to the worksheet

**IRA Worksheet**

		Column A	Column B
1. Phase out amount	1.	\$10,000	\$10,000
2. Enter: Your Federal adjusted gross income before federal IRA Contributions.	2.		
3. Subtract line 2 from line 1	3.		
4. Multiply line 3 by 20% (.20)	4.	x .2	x .2
5. Maximum allowable IRA deduction. If the result is less than \$200, but more than zero, enter \$200	5.		
6. Enter: IRA amount from line 19, Form 2	6.		
7. Enter: Lesser of line 5 or 6	7.		
8. Subtract line 7 from line 6 and enter this amount on line 23, Form 2.	8.		

This is the non deductible portion of your IRA for Montana purposes.

If you are married, filing separate returns and lived apart from your spouse the entire year, you will be treated as single individuals.

**Reductions of Income**

**Line 26**—If you had an installment sale(s) of a capital asset(s) which you entered into before January 1, 1987 you may be able to take a capital gain exclusion of 40%. Compute your exclusion on the worksheet below. (As of the date of printing, there is Federal legislation pending that may affect this calculation).

If Federal Schedule D line 18 is negative, you are not allowed a capital gain exclusion. Do not proceed any further.

**Capital Gain Exclusion Worksheet**

- Combine the amounts from Federal Schedule D lines 12 and 13 which pertain to installment sales entered into before January 1, 1987, and enter here.
- Combine the amounts from Federal Schedule D lines 7(g) and 16(g) and enter here.
- Divide line 1 by line 2.
- Enter the amount from line 18 of Federal Schedule D, but not less than zero.
- Multiply the amount on line 4, times the % on line 3:  
\_\_\_\_\_ x \_\_\_\_\_ % = \_\_\_\_\_
- Multiply amount on line 5 times 40% .  
\_\_\_\_\_ x .40 = \_\_\_\_\_
- This is your Montana capital gains deduction. Enter on line 26 of Montana Form 2.

**Line 27**—Interest Exclusion for Elderly—If you're 65 or older, and filing single, separate, or head of household, you may exclude up to \$800 of interest income. You may deduct up to \$1,600 if filing jointly.

**Note:** If you're married filing separately, only the spouse 65 or older can exclude up to \$800 interest. However, if you file a joint return you're allowed to exclude up to \$1,600 even if only one of you is 65 or older. If you're married and both 65 or older, you're each allowed to exclude up to \$800 interest when filing separately or jointly. **The amount on line 27 cannot exceed the total amounts on line 7 and line 21.**

**Line 28**—Exempt Interest Income—Interest income received on obligations of the United States Government is exempt from Montana income tax if the following conditions are met: the instruments must be written documents, bear interest, and contain a binding promise by the United States to pay specified sums at specified dates. They must also contain specific Congressional Authorization which pledges the full faith and credit of the United States in support of the promise to pay. If any one of these conditions is not met, the interest from the obligation is taxable to Montana. Obligations that are taxable include GNMA's and FNMA's.

**Treatment of Retirement Income****Line 29—Exempt retirement income.** Attach copies of Form 1099R.

The 1991 Legislature passed a bill providing a uniform pension exclusion of up to \$3,600. If your federal adjusted gross income on line 20 of Form 2 is **less** than \$30,000, enter the **smaller** of your total retirement income or \$3,600 on Form 2, line 29. If you filed married filing separately, the \$30,000 limit applies to each spouse separately.

If your federal adjusted gross income on line 20 of Form 2 is **larger** than \$30,000, calculate your retirement exclusion using the worksheet below. If it is greater than \$31,800, you do not qualify for this exclusion. If married filing jointly and both spouses have pension income the limit is increased to \$33,600.

The exception to this law is Railroad Retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board. These benefits are fully exempt from Montana taxation.

Premature distributions/early withdrawals **do not** qualify for a retirement exclusion under the new law. Premature distribution and disability benefits do not qualify.

If you have a disability pension (Code 3 on Form 1099R), use the disability pension worksheet Form DS-1. This worksheet is available by calling the Department of Revenue. These are shown as distribution Code 1 and Code 3 of Form 1099R. To see if you qualify for the exclusion, you must complete the retirement worksheet on this page.

**Retirement Worksheet**

	<b>COL A</b>	<b>COL B</b>
1. Enter your federal adjusted gross income from line 20.		
2. Phase-out limitation.	30,000	30,000
3. If line 1 is smaller than line 2, enter on Form 2 line 29: the smaller of (A) retirement income or (B) \$3,600 for each person who has retirement income. <b>Stop Here</b> , you do not need to complete the remainder of this worksheet. If line 1 is larger than line 2, subtract line 2 from line 1 & enter the result.		
4. <b>Fill Out Only One.</b> If your filing status is:		
a. <b>Single or Joint and</b> only one has retirement income; enter your retirement income or \$3,600, whichever is smaller.		
b. <b>Married Filing Separately</b> ; enter 1) each spouse's retirement income, or 2) \$3,600 in columns A & B, whichever is smaller.		
c. <b>Joint</b> and both spouses have retirement incomes: 1st, enter each spouse's total retirement income or \$3,600, whichever is smaller, on the following lines: (His) _____ (Hers) _____ 2nd, enter the total of the two lines.		
5. Multiply the amount on line 3 times two and enter the result.		
6. <b>Retirement Exclusion.</b> Subtract line 5 from line 4a, 4b or 4c, whichever applies to you. If the result is zero or negative, you are not eligible for a retirement exclusion. If the number is positive, this is your retirement exclusion. Transfer this number to line 29 on Form 2.		

**Line 30—State Unemployment Benefits** are not taxable to Montana.

**Line 31—Tip Income**

Your tip income is excludable if:

- 1) it is included in Federal adjusted gross income, and
- 2) received for services provided to patrons of a licensed business that provides food, beverages or lodging.

**Line 32—Other reductions** (Please be specific.)

**State Refunds**

If included on line 17, deduct State refunds here.

**Disability Income Exclusion**

You may subtract up to \$5,200 a year of your disability payments from your gross income.

You qualify for the exclusion if you:

- 1) are under 65;
- 2) have not reached mandatory retirement age;
- 3) retired on disability;
- 4) were permanently and totally disabled when you retired; and
- 5) have not chosen to treat your disability income as a pension or annuity.

The amount is limited to the disability pay you actually received or \$100 a week whichever is less. This amount may have to be reduced by part of your adjusted gross income.

Use Form DS-1 to calculate your allowable deduction and attach to your return.

**Additional deduction for purchase of recyclable material**

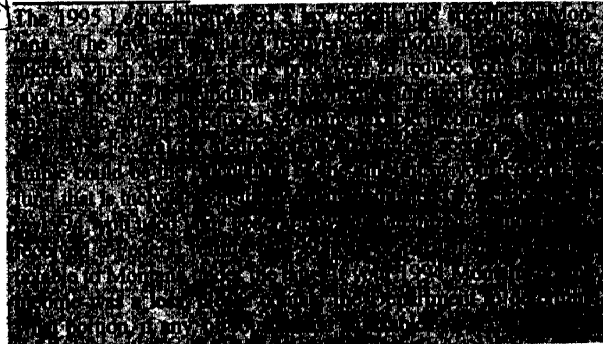
Individuals may take an additional 10% deduction of the expenses related to the purchase of recycled products used within Montana in their business if the recycled products purchased contain at least 90% reclaimed material. The deduction is available for tax years 1993 through 1997.

**Wages Covered by Federal Targeted Jobs Credit**

As an employer, you can deduct wages and salaries reduced by the amount of the federal targeted jobs credit or by work incentive program credits. Deduct the credit amount(s) from your Montana adjusted gross income. The deduction must be taken in the year the wages and salaries are used to compute the federal credit.

**Land Sales to Beginning Farmers**

You can deduct from your taxable income all income or capital gain realized from the sale of land consisting of 80 acres or more sold to a beginning farmer at a maximum of 9% interest. The transaction must first be approved by the Agricultural Loan Authority. The maximum deduction allowed is \$50,000. A copy of your letter of approval from the Department of Agriculture must be attached.

**Tax Benefit Rule**

**Indian Reservation Income**

Beginning January 1, 1994, native American Indians who do not reside and work on the reservation of the tribe in which they are enrolled will be subject to Montana tax on all income whether earned on or off the reservation.

Native American Indians working in Montana are required to file a Montana tax return even if the income earned is exempt from Montana tax.

Any loss incurred on the reservation cannot be used to offset taxable income. Certification of enrollment (Form IND) and proof the income was earned on the reservation must be attached to the return each year.

**Agent Orange**

Agent Orange payments are not taxable to Montana.

**Independent Liability Funds**

If your business qualifies as a small business under the criteria set up by the Federal Small Business Administration, you may deduct amounts contributed to your Independent Liability Fund.

**S Corporation Income**

Enter on line 32 any undistributed taxable income included in total income on line 18. You must be a shareholder in a Federal S Corporation that does business in Montana and is a C Corporation for Montana purposes prior to 1-1-92.

**Exempt Military Pay**

Military pay earned as a result of service performed under the authority of USC Title 10 is exempt from Montana taxation. Pay earned as a result of service performed under any other authority (i.e., Title 32, Title 5, etc.) is subject to State tax.

Residents wishing to maintain their Montana residency and all non-resident military personnel working in Montana, are required to file Montana tax returns.

**Social Security**

Complete the Social Security worksheet in this booklet after completing the retirement worksheet on page 6. If the portion of your Social Security benefits that is taxable to Montana is less than the federal, enter the difference. Attach the Social Security Worksheet to your return.

**Allocation of Income to Proprietor's Spouse**

If your spouse regularly performs substantial personal services in operating the business for which he or she is not paid a salary or wage, you can assign to your spouse reasonable pay for the services. Compensation must be determined on the basis of the reasonable rate of pay appropriate for your area for the particular type of personal services performed. Services performed by operating a household or services which are incidental to the operation of the business may not be used as a basis for this allocation.

Attach an explanation sheet to the return showing how the allocation of income was determined. The allocation of income must appear on line 32 as a reduction of your income and on line 23 as an addition to your spouse's income. Transfer allocations are subject to OFLT.

**Montana Net Operating Losses**

If your net operating loss for federal and for Montana differ, add your federal net operating loss on line 23 and subtract your Montana net operating loss on line 32.

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**NOTE: MONTANA ADJUSTED GROSS  
INCOME MAY NOT BE REDUCED BY  
NON-MONTANA INCOME.**

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**Deductions**

**NOTE: IF HUSBAND AND WIFE FILE  
SEPARATE RETURNS, BOTH MUST  
ITEMIZE DEDUCTIONS OR BOTH MUST  
CLAIM THE STANDARD DEDUCTION.**

**Line 36**—You can claim a standard deduction or itemize deductions. (See Form 2A, Schedule I and pages 8 and 9 of the instructions if you itemize.)

**Standard Deduction****Single or Married Filing Separately**

Calculate 20% of the amount on line 35 (Montana adjusted gross income). If the amount calculated is less than \$ 2,770 enter the calculated amount on line 36. If it is more, enter \$2,770 on line 36.

**Married Filing Jointly or Head of Household**

Calculate 20% of the amount on line 35 (Montana adjusted gross income). If the amount calculated is less than \$ 5,540 enter the calculated amount on line 36. If it is more, enter \$5,540 on line 36.

**Line 38—Exemptions**

Multiply \$1,480 by the number of exemptions in box 5 on the front side of Form 2.

**Part year and nonresidents, must now turn to page 13 to determine income reportable to Montana.**

**Tax Computation**

**Line 40**—Enter the tax from the table on back of form.

**Line 41**—Tax on lump-sum distributions which haven't been included in adjusted gross income. Enter 10% of the federal tax you paid on lump-sum distributions. Attach a copy of Federal Form 4972. Part year residents must calculate the tax on all lump sum distributions received while residing in Montana.

**Line 43**—Enter the total from Form 2A, Schedule II, line 105.

**Line 45**—Recapture investment credit

Use Form RIC available from the Income Tax Division.

**Line 46—Old Fund Liability Tax**

There is an Old Fund Liability Tax (OFLT) assessed on income received from self-employment and the ordinary income (passive and nonpassive) from partnerships, sub chapter S corporations, estates and trusts and limited liability companies. Additionally, OFLT is assessed on members and managers of limited liability companies. (Does not include publicly traded LLC's). Allocated income is subject to OFLT. If you do not have income from one of the above activities you do not need to complete the OFLT forms.

Schedule C business income and Schedule F income transfer allocated to one's spouse is subject to the OFLT by the spouse. Schedule E rental income is not subject to the tax. The OFLT is assessed on the wages of employed persons, however, the tax is deducted directly from their wages. Income derived from the performance of work or services for which compensation is received but no W-2 is issued, is also subject to OFLT. Examples of this type of income would include director's fees, administrator's fees, non-employee compensation, etc., reported on a 1099 statement, commodities paid in lieu of wages, etc. Only income earned in the State of Montana is subject to the tax.

The tax rate is .2% (multiplier of .002). The tax is calculated on a per activity basis (each partnership, each Schedule C business, each S corporation, etc.).

**NEW**

To calculate the OFLT, complete the OFLT form in this booklet. ATTACH THE OFLT FORM AND COPIES OF ALL K-1'S FROM PARTNERSHIPS, S CORPORATIONS, ESTATE, TRUSTS, AND LIMITED LIABILITY COMPANIES TO YOUR MONTANA INCOME TAX RETURN.

**Line 47**—You and/or your spouse can each contribute any amount to the program(s) of your choice. This is in addition to your existing tax liability. If you itemize deductions, the contribution may be claimed in the tax year being filed or the year paid.

**Line 48**—Nongame Wildlife Program  
Contributions will be used to ensure the well-being of many of Montana's watchable wildlife species, such as eagles, herrons, bluebirds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.

**Line 49**—Child Abuse and Neglect Prevention Program  
Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

**Line 50**—Agriculture in Montana Schools Program  
Contributions will fund the development and presentation of educational programs. This ensures Montana's young people have a better understanding of agriculture in our state and the rest of the world.

**Line 53**—Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2's and 1099R's) to your return. Do not include OFLT withheld.

**Line 54**—Enter your total Montana estimated tax payments and payments sent with extension for 1995. Include applied overpayments from 1994.

If you owed and paid tax on a previous years' return, that amount cannot be claimed as an estimated tax credit on line 54. Please submit all estimated payments with Form ESV to ensure proper credit.

**Line 55**—Elderly Homeowner or Renter Credit  
Note: Detailed instructions are on Form 2EC to determine if you qualify.

## Refund or Balance Due

**Line 58**—Amount Overpaid (If line 57 is larger than line 52)  
Subtract line 52 from line 57. You can choose to have all or part of this amount refunded to you (line 60). The remainder, if any, can be applied to your estimated tax for 1996 (line 59). Only payments of more than \$1 will be refunded.

**Line 59**—Enter the amount of line 58 which you want applied to 1996 Estimated Tax.

**Line 60**—Enter the amount of line 58 you want refunded to you.

## Line 61—Tax Due (If line 52 is larger than line 57)

Subtract line 57 from line 52. This is the amount you owe.

Submit payment with return. Make your check or money order payable to the Department of Revenue. Be sure your Social Security number is on your check or money order. Please staple your payment to the return. If a return is filed without full remittance of all tax, penalties and/or interest due, you are advised to make regular payments pending contact by our Department's Collection staff.

## Income Tax Withholding for 1996

If the amount you owe (line 61) or the amount you overpaid (line 58) is excessive, see your payroll office. Ask about filling out a new Form W-4 for Montana purposes to change the amount of income tax to be withheld from your state wages. Your Federal withholding can remain unchanged.

## Declaration and Payment of Estimated Tax for 1996

If you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you may need to make estimated tax payments in 1996.

## Schedule I Form 2A Itemized Deductions

NEW

The 1995 Legislature passed a law allowing taxpayers to directly deduct one-half (1/2) of their medical insurance premiums which they paid during the year. Self-employed taxpayers who used the self-employed health insurance deduction on line 19 must reduce their premiums by that amount before calculating the 50% deduction. **Any medical premiums deducted on this line are not allowed as a medical expense on line 68.**

**Line 68-70—Medical and Dental Expenses**—Medical and dental expenses you paid during the tax year, if not paid by insurance, are deductible. The amount is subject to similar limitations used for your Federal medical and dental deductions. The cost for services by physicians, dentists, nurses, and hospitals are deductible. The cost of prescription medicine, drugs, medical or surgical appliances and eyeglasses, transportation for getting medical care and certain health insurance premiums are included. **The medical insurance premiums included on line 67 and line 19 are not an allowable deduction on this line.** Funeral expenses and the cost of illegal drugs are not deductible. Your allowable expenses are reduced by 7.5% of line 35.

## Line 71—Long Term Care Insurance

Enter total amount of premium payments made for long term care insurance with benefits that meet or exceed the minimum standards as established by the Montana State Auditors Office; Insurance Commission Division. Write or call the Department for more information.

**Line 72**—Enter the amount of Federal estimated tax paid and/or the amount of Federal tax withheld from your salary during the tax year. Self-employment taxes are not deductible.

**Line 73**—Enter the balance of your 1994 Federal income tax paid in 1995. Do not include self-employment taxes paid.

**Line 74**—Enter any additional Federal income tax paid in 1995.

**Line 75**—Enter any taxes you paid on real estate and personal property.

**Line 76**—Enter your motor vehicle taxes paid. You cannot deduct new car taxes, state income tax paid or withheld, OFLT, federal excise taxes, gasoline tax, Social Security tax (FICA), tax on alcoholic beverages or tobacco or selective and general sales taxes. Accommodation tax or license fees (hunting, fishing, driving, etc.) are also nondeductible.

## Interest Expense

**Line 77**—Enter only home mortgage interest and deductible points allowed on your Federal return. If you pay interest to an individual, please provide their name, social security number and address.

**Line 78**—Enter Deductible Investment Interest (attach Federal Form 4952). If you filed separately, the deduction must be computed for each taxpayer.

Note: Interest expense related to exempt income is not deductible.

**Line 79—Contributions**

You can deduct what you gave to qualified organizations as authorized by Federal tax laws. Limitations should be based on **Montana adjusted gross income from line 35**, not on the Federal adjusted gross income.

Payments to a charitable organization to purchase insurance naming the charitable institution as irrevocable beneficiary are allowed as contributions.

If you are a shareholder in an S corporation and the corporation donates computer equipment to a Montana school, you may take the deduction if the corporation **has not**. You may deduct the fair market value, not to exceed 30% of your net income. The contribution must be made within five years after manufacture of the equipment. It must **not** be exchanged by the recipient for money, other property, or services.

**Line 80—Child and Dependent Care Expense**

Payments you made for child or disabled dependent care while you and your spouse both worked or looked for work may qualify for a deduction. To qualify you must maintain a home that included a child under 15 or dependent or spouse unable to care for himself/herself. You must also meet certain income requirements. If you are a licensed and registered day care operator providing day care for your own child and one additional child, please contact the department. The deduction **must** be divided equally between spouses when they are filing separately on the same form. If filing status is married filing separate on separate forms you cannot take the credit.

If the total of both spouses income (line 35, columns A & B):

IS	AND YOU	YOU
Under \$22,800	Have 1 child	Do qualify
Under \$25,200	Have 2 children	Do qualify
Under \$27,600	Have 3 or more	Do qualify

If you qualify contact the Income Tax Division and request Form 2441M.

**Line 81—Casualty or Theft Loss**

Attach Federal Form 4684

You may deduct casualty and theft losses subject to the limitations established by federal tax laws. Use Montana adjusted gross income, line 35, in your computation on Schedule 4684. If you filed separately, the deduction must be computed for each taxpayer.

**Miscellaneous Deductions****Line 82—Unreimbursed Business Expenses.**

Attach Federal Form 2106.

**Line 83**—You may deduct other miscellaneous items of expense subject to the limitations of Federal tax laws. Examples of the expenses you **MAY** deduct:

- Safety equipment, small tools and supplies needed for your job.
- Montana-produced organic fertilizer.
- Cost of education required to maintain or improve skills used in your present job, trade, or business.

Examples of expenses you **MAY NOT** deduct:

- Cost of education needed to meet minimum job standards, to obtain a new job, or to get a substantial advancement in employment.
- Cost of transportation to or from work.
- Cost of entertaining friends.
- Lump-sum alimony payments.
- Payments for the support of minor children.
- Commuting costs and expenses.
- Telephone, for personal use.

**Line 87**—Enter miscellaneous deductions not subject to 2% of adjusted gross income from your Federal return.

**Line 88**—People with higher incomes may not be able to deduct all of their itemized deductions. If the amount on Form 2, line 35, is more than \$114,700 (\$57,350 if married filing separately), use the worksheet below to figure the amount you may deduct.

**Itemized Deduction Worksheet**

	Col A	Col B
1. Enter the amount from Form 2A, line 88 (Total itemized deductions).	1. _____	_____
2. Add the amounts on Form 2A, lines 67, 70, 71, 72, 73, 74, 78, 80 & 81, plus any gambling losses included on line 87.	2. _____	_____
3. Subtract line 2 from line 1. (If the result is zero, enter the amount from line 1 above on Form 2, line 36. You do not need to complete this worksheet. <b>Stop Here</b> )	3. _____	_____
4. Multiply amount on line 3 above by 80% (.80).	4. _____	_____
5. Enter the amount from Form 2, line 35.	5. _____	_____
6. Enter \$114,700 (\$57,350 if married filing separately, even if filing on the same form)	6. _____	_____
7. Subtract line 6 from line 5. (If the result is zero or less, enter the amount from line 1 above on Form 2, line 36. You do not need to complete this worksheet. <b>Stop Here</b> .)	7. _____	_____
8. Multiply line 7 by 3% (.03).	8. _____	_____
9. Compare the amount on lines 4 & 8 above. Enter the <b>Smaller</b> of the two amounts here.	9. _____	_____
10. <b>Total Allowable Itemized Deductions.</b> Subtract amount on line 9 from amount on line 1. Enter the result here and on Form 2A, line 89 and Form 2, line 36.	10. _____	_____

**Credits Against Tax**

**Line 90—Rural Physicians Credit**—A physician who commences practice in an area without a 60 bed hospital located within 30 miles, may claim a credit against individual income tax. The credit may be claimed for each of four consecutive years beginning with the year in which his/her practice starts in a qualifying area. Effective date of this credit is January 1, 1991. In order to qualify for this credit, a physician must have commenced rural practice after this date. The physician must maintain the practice for at least 9 months of the taxable year in which the credit is claimed. Credit may not be used for any taxable year in which the physician ceases to practice in an area described above.

If a physician ceases to practice in the rural area within 4 years following the taxable year in which the credit is allowed, the physician shall repay to the state the amount of the credit claimed for that taxable year. Please attach a detailed statement related to your medical practice. Give date commenced practice, etc.

The credit is \$5,000 a year and may be used only to offset tax liability. Enter credit amount on line 90, Form 2A Schedule II.

**Line 91—College Contribution Credit—See Form CC for instructions.**

You may be entitled to a credit for deductible contributions made during 1995 to a general endowment fund of the Montana university system foundations or to a general endowment fund of a private Montana college or its foundation. The credit is 10% of the contribution with a maximum of \$500 and is non refundable. To be eligible for the credit the college must offer a baccalaureate degree level education program. The contribution may also be claimed as an itemized deduction on Form 2A, subject to the normal limitations.

**Line 92—Elderly Care Credit—see Form ECC for instructions.**

You may be eligible to receive a credit for paying certain expenses of an elderly family member who is 65 or older or has been determined disabled for Social Security purposes.

**Line 93—Credit Allowed for Income Tax Paid Other States or Countries. (Full year or part year resident)**

You are entitled to a credit for income tax liability paid to another state or country. Part-year residents who have income that was taxed in another state while a Montana resident may take the credit if the income from the other state(s) is included in Montana total income on Schedule III.

Part year residents please complete Schedule VII, Form 2A, page 3 to compute the credits. Residents may compute the credit on Schedule V, Form 2A page 3.

Enter the credit on line 93, Schedule II, Form 2A. The credit claimed must be supported by a copy of your tax return filed with the other state or country. A separate computation must be made for each state or country for which a credit is claimed. Your total credit cannot exceed your tax liability.

**Line 94—Contractor's Gross Receipts Tax Credit**

You're allowed a credit against Montana income tax liability for the public contractor's gross receipts tax you paid. If you report your income from contracts on a percentage-of-completion basis, the credit must be pro-rated accordingly. The allowable credit is the actual gross receipts tax paid after taking the personal property tax credit. This cannot be in excess of your tax liability. Attach schedule to return showing the contractor's name, date and amount of contract, primary contractor, subcontractor, and location of job.

**Line 95—Qualified Investment Credit**

You may claim a credit of 5% of your 1995 Federal investment tax credit. The property claimed for credit must have been placed in service in Montana and used in the production of Montana income. To take the credit, complete Schedule VI, Form 2A page 3, and attach a copy of Federal Form 3468 which shows a computation of the federal credit.

Credit for the taxable year may not exceed \$500. No unused portion of the credit earned in 1995 may be carried back or forward to other years. **For limitations applying to carryforwards of years prior to 1983 call the Department of Revenue at (406) 444-2837.**

If you have a combination of current year investment tax credit and carryforward credit from years prior to 1983, apply the current year credit first. Then apply the carryforward credit. Please attach a copy of your carryforward/carryback computations.

The credit may not be allocated to your spouse if he or she is not a partner in the business, partnership or a shareholder in the S corporation.

If the property is used both inside and outside the state, the credit is pro-rated according to the number of days the property is used in Montana and the length of time owned during the year.

**No investment credit is allowed for Rehabilitation property.**

**Line 96—Credit for Installation of Biomass/Geothermal Energy Systems (Only residents of Montana can claim this credit.)**

You may claim a credit against tax liability if you're a resident who installs or acquires a low emissions wood, wood pellet, biomass combustion device or geothermal systems. See instructions on Form ENRG-B which must be completed and attached to claim this credit.

**Line 97—Credit for Energy Conservation Installations**

You may claim a credit against your tax liability for some of the cost of an investment for energy conservation purposes in a building. Montana law defines an eligible expense as "the installed cost of materials and equipment which reduce the waste or dissipation of energy or reduce the amount of energy required to accomplish a given amount of work."

The maximum credit for residential purposes is \$150 and for commercial purposes \$300. Form ENRG-C must be completed and attached to return.

**Line 98—Credit for Wind-powered Generation Equipment**

You may claim a credit against your Montana income tax for a qualified investment of \$5,000 or more. The commercial wind-powered electrical generation system must be located in Montana. Complete Form 2 WPC and attach it to the return.

**Line 99—Recycling Credit—**Credit for investments in depreciable equipment or machinery to collect, process or manufacture a product from reclaimed material. Please see Form RCYL for complete instructions.

**Line 100—Alternative Fuel Credit—**You may claim a credit against your tax liability for conversion of a motor vehicle to an alternative fuel in 1995. See instructions on Form AFRC. Form AFRC must be completed and attached to the return.

**Line 101—Montana Capital Company Credit—**You may claim an income tax credit for investments in Montana capital companies. The company must be certified by the Montana Department of Commerce and privately capitalized at \$200,000 or more. The credit is limited to 50% of the investment up to a maximum of \$150,000 per taxpayer. The total amount of tax credits authorized for one capital company may not exceed \$1,500,000. Attach a copy of the certification.

A capital company that fails to make qualified investments must pay a penalty equal to all the tax credits allowed to taxpayers investing in that company. This penalty will be paid to the Montana Department of Revenue. Attach a detailed explanation of your claim for the credit.

**Line 102—Dependent Care Assistance Credit (DCAC)**

An employer may claim a credit against his personal income taxes for amounts paid or incurred during the taxable year by the employer for dependent care assistance provided to employees. Fill out form DCAC available from the department.

**Line 103—Credit for Health Insurance for Uninsured Montanans (i.e. Health Insurance)—**This credit is available to employers who make disability insurance available to employees. See Form HI for details.

**Line 104—Infrastructure Credit**

A credit for new business investment in infrastructure projects that create or maintain at least 50 jobs in the primary or secondary community. The credit is calculated as a percentage of the new investment and is not less than \$10,000. Call the Department of Revenue for details.

**Line 105—Add credits and enter total on line 43, Form 2.**

## Instructions For Form 2S

### Introduction

#### **Name, Address, and Social Security Number**

Position the adhesive mailing label (from the booklet or the postcard) in the space indicated at the top of your Montana Individual Income Tax Return.

If you did not receive a booklet or a postcard with a removable label, print or type your name, address, and Social Security number in the appropriate spaces.

If you're married, fill in name and Social Security number for both you and your spouse. Montana law requires that all individuals who file a tax return include their Social Security number.

#### **Tax Preparer Contact**

To streamline resolving our questions related to your return, we have included an area for you to authorize the Department to contact your preparer. Your initials in the box(es) significantly speed the processing of your return. **Both spouses must initial the boxes.** If you initial these boxes, the Department may contact the preparer or you for additional information.

You will however, continue to receive notification of any formal adjustments made to your tax liability. The Department is implementing this new procedure at the request of the **Montanans' for Improving Tax Administration (MITA)**.

### Filing Status (Check the appropriate box)

**Box 1 Single**

**Box 2 Married, Filing Joint Return**

You and your spouse can file a joint return even though one of you has no income or deductions. Your joint return must include all income and deductions for both spouses.

**Box 3 Head of Household:**

If you qualify for Federal purposes, you may file your Montana return as head of household (**Attach Federal Form 1040 or 1040A, pages 1 & 2**).

## Line-By-Line Instructions—Form 2S

### **Full Year Residents only**

#### Income Reported on Federal Return

**Lines 6 through 10**—Enter all items of income you reported on your Federal Income Tax return (Attach copies of applicable schedules.)

#### **Line 12—Individual Retirement Account (IRAs)**

Enter the IRA deduction you and/or your spouse computed on your Federal IRA Worksheet. If you did not make payments to an IRA, do not make an entry on this line

**Line 13**—Subtract line 12 from line 11 to arrive at your federal adjusted gross income. This amount must be the same as the federal adjusted gross income you reported on your Federal return.

### Modifications to Income

#### Additions to Income

**Line 14**—Include interest income from bonds and other obligations of other states or their political subdivisions. (Interest income from Montana bonds is *not* taxable.)

Your federal refund is income in 1995 if you:

1. Used federal income taxes paid or withheld on line 23B of 1994 Form 2S.
2. Itemized deductions on Montana return last year using federal withholding/estimates as a deduction.

**Caution: Do not include any portion of your federal refund that is due to earned income credit.**

### Reductions to Income

**Line 15—Retirement Income Exclusion—Attach copy of 1099R.** Compute your retirement exclusion using the worksheet on this page and enter it on line 15 of Form 2S.

#### **Taxation of Retirement Income**

The 1991 Legislature passed a bill providing a uniform pension exclusion of up to \$3,600. To see if you qualify for the exclusion, you must complete the retirement worksheet on this page.

The exception to this law is Railroad Retirement benefits, Tier I and Tier II, received from the Railroad Retirement Board. These benefits are fully exempt from Montana taxation.

If you have a disability pension, use the disability pension worksheet Form DS-1. This worksheet is available by calling the Department of Revenue.

If your federal adjusted gross income on line 13 of Form 2S is less than \$30,000, enter the **smaller** of your total retirement income or \$3,600 on Form 2S, line 15.

If your federal adjusted gross income on line 13 of Form 2S is **larger** than \$30,000, calculate your retirement exclusion using the worksheet. If it is greater than \$31,800, you do not qualify for this exclusion. If married filing jointly and both spouses have pension income, the limit is increased to \$33,600.

Premature distributions/early withdrawals **do not** qualify for a retirement exclusion under the law.

**Retirement Deduction Worksheet**

1. Enter your federal adjusted gross income from line 13. 1. \_\_\_\_\_
2. Phase-out limitation 2. 30,000 \_\_\_\_\_
3. If line 1 is smaller than line 2, enter on Form 2S, line 15: the smaller of each (A) retirement income or (B) \$3,600 for each person who has retirement income and **Stop Here**. You do not need to complete the remainder of this worksheet.  
  
If line 1 is larger than line 2, subtract line 2 from line 1 & enter the result. 3. \_\_\_\_\_
4. **Fill Out Only One.**  
If your filing status is:  
a. **Single or Joint** and only one has retirement income; enter your retirement income or \$3,600, whichever is smaller. 4a. \_\_\_\_\_  
b. **Joint** and both spouses have retirement incomes: **1st**, enter each spouse's total retirement income or \$3,600, whichever is smaller, on the following lines:  
(His) \_\_\_\_\_ (Hers) \_\_\_\_\_  
**2nd**, enter the total of the two lines. 4b. \_\_\_\_\_
5. Multiply the amount on line 3 times two (x2) and enter the result. 5. \_\_\_\_\_
6. **Retirement Exclusion.** Subtract line 5 from line 4a or 4b, whichever applies to you. If the result is zero or negative, you are not eligible for a retirement exclusion. If the number is positive, this is your retirement exclusion. Transfer this number to line 15 on Form 2S. 6. \_\_\_\_\_

**Line 16—Interest Exclusion**—If you're 65 or older, and filing single or head of household, you may exclude up to \$800 of interest income. If filing jointly, you may exclude the interest amount up to \$1,600; only one spouse must be 65. The amount on line 16 may not exceed the amounts on line 7 and 14.

**Line 17—Exempt Interest Income**

Interest income received on obligations of the United States Government is exempt from Montana Income Tax if all of the following conditions are met: the instruments must be written documents, bear interest, and contain a binding promise by the United States to pay **specified sums at specified dates**. It must contain specific Congressional Authorization which pledges the full faith and credit of the United States in support of the promise to pay. If any one of these conditions is not met, the interest from the obligations is taxable to Montana. Obligations that are taxable include GNMA's and FNMA's.

**Line 18**—Unemployment Benefits are not taxable to Montana.

**Line 19—Tip Income**

Your tip income is excludable if: 1) it is included in Federal adjusted gross income and 2) received for services provided to patrons of a licensed business that provides food, beverages or lodging.

**Line 20**—Other reductions (Please be specific)

**Montana State Refund**

If included on line 10, deduct it here.

**Exempt Military Pay**

Military pay earned as a result of service performed under the authority of USC Title 10 is exempt from Montana taxation. Pay earned as a result of service performed under any other authority (ie., Title 32, Title 5, etc.) is subject to state tax.

Residents wishing to maintain their Montana Residency and all non-resident military personnel working in Montana, are required to file Montana tax returns.

**Indian Reservation Income**

**Indians who do not reside on the reservation of the tribe in which they are enrolled will be subject to Montana tax on all income earned on or off the reservation.**

**Native American Indians working in Montana are required to file a Montana tax return even if the income earned is exempt from Montana tax.**

**Any loss incurred on the reservation cannot be used to offset taxable income. Certification of enrollment (Form IND) and proof that the income was earned on the reservation must be attached to the return each year.**

**Disability Income Exclusion**

You may subtract up to \$5,200 a year of your disability payments from your gross income. You qualify for the exclusion if you: 1) are under 65; 2) have not reached mandatory retirement age; 3) retired on disability; 4) were permanently and totally disabled when you retired; and 5) have not chosen to treat your disability income as a pension or annuity.

Your exclusion is limited to the disability pay you actually received or \$100 a week whichever is less. This may have to be reduced by part of your adjusted gross income. Use Form DS1 (available from the Department) to calculate your allowable exclusion and attach to your return.

**Line 22**—Add line 13 to line 14 and subtract line 21. This is your Montana adjusted gross income.

**Deductions**

**Line 23**—Standard Deduction or Federal income tax paid or withheld

**Standard Deduction**

(If not claiming Federal Withholding)

**Single**

Calculate 20% of the amount on line 22 (Montana adjusted gross income). If the amount calculated is less than \$2,770 enter the calculated amount on line 23. If it is more, enter \$2,770 on line 23.

**Married Filing Jointly or Head of Household**

Calculate 20% of the amount on line 22 (Montana adjusted gross income). If the amount calculated is less than \$5,540 enter the calculated amount on line 23. If it is more, enter \$5,540 on line 23.

**You may use your federal income taxes paid (withheld and/or estimated) in tax year 1995, if greater than your allowable standard deduction.** Check appropriate box. If you checked Box B, you may want to consider itemizing deductions on Form 2 and 2A.

**Federal Income Tax**

(If not claiming standard deduction)

**Line 24—Exemptions**

Multiply \$ 1,480 by the number of exemptions in box 5 at top of Form 2S and enter.

NEW

**Tax Computation**

**Line 27**—Enter the tax from the table on the back of form.

**Line 28**—Enter total contributions from lines 29, 30 and 31. You and/or your spouse can each give any amount to the program(s) of your choice. This is in addition to your existing tax liability.

**Line 29—Nongame Wildlife Program**

Contributions will be used to ensure the well-being of many of Montana's watchable wildlife species, such as eagles, herons, blue-birds, great horned owls, loons, chipmunks, pikas, flying squirrels and painted turtles.

**Line 30—Child Abuse and Neglect Prevention Program**

Contributions will fund services and activities which relate to the prevention of child abuse and neglect.

**Line 31—Agriculture in Montana Schools Program**

Contributions will fund the development and presentation of educational programs. This will ensure Montana's young people will have a better understanding of agriculture in our state and the rest of the world.

**Line 32**—Add amounts on lines 27 and 28 for total tax.

**Line 33**—Enter the amount of Montana income tax withheld as shown on your withholding tax statements. Attach withholding statement(s) (W-2's, 1099R's, etc.) to return.

**Line 34**—1995 estimated tax payments, amounts credited from previous year and/or payments made with extension.

If you owed and paid on previous years' return, that amount cannot be claimed as an estimated tax credit on line 34. Please submit all estimated payments with Form ESV to ensure proper credit.

**Line 35—Elderly Homeowner or Renter Credit**

**Note:** See detailed instructions on Form 2EC to determine if you qualify.

**Refund or Tax Due****Line 37—Amount Overpaid**

(If line 36 is greater than line 32)

Subtract line 32 from line 36. Only overpayments of more than \$1 will be refunded.

**Line 38—Tax Due (If line 32 is larger than line 36)**

Subtract line 36 from line 32. This is the amount you owe, if the balance is \$1 or more. If any payment is due, make your check or money order payable to the Department of Revenue. Be sure your Social Security number is on your check or money order. Please staple your payment to the return. If a return is filed without full remittance of all tax, penalties and/or interest due, the Department's collection staff will contact you.

**Income Tax Withholding for 1996**

If the amount you owe (line 38) or the amount you overpaid (line 37) is excessive, see your payroll office. Ask about filling out a Form W-4 to change the amount of withholding.

**Declaration and Payment of Estimated Tax**

If in 1996 you expect to owe at least \$500 additional tax after subtracting withholding and tax credits, you must make estimated tax payments for 1996.

**Note: For tax years after December 31, 1992.** If you have a tax liability greater than \$500.00 you may be required to pay estimated taxes in four installments. Instructions and forms for 1996 are available from the Montana Department of Revenue.

**PART-YEAR RESIDENT AND NONRESIDENT RETURNS**

Part-year residents and nonresidents must complete lines 1 through 39 of Montana Form 2 using the instructions on pages 3-10 of this booklet. Report the total income from all sources as shown on your Federal income tax return. Line 20 of Form 2 must agree with the Federal adjusted gross income reported on your Federal income tax return. You are allowed to claim either the standard deduction or itemized deductions and at least one personal exemption. Once you have completed Form 2 through line 39, you must then go to Schedules III and IV on page 2 of Form 2A to compute your Montana tax liability.

The computation of the tax liability of part year residents and nonresidents is based on a proration of the tax liability computed on the total income shown on line 39 Form 2. The percentage of the total tax you are required to pay is based on the ratio of your Montana income to total income for the year. For example, if 50% of your total income is attributable to Montana, your tax liability will be 50% of the tax computed on the total taxable income from line 39, Form 2.

You are not paying tax on income attributable to sources outside of Montana; however, the total income must be reported to compute your correct Montana tax liability.

**You must attach a copy of your Federal Return (pages 1 & 2 and Schedule A).**

**How Do I Determine My Legal Residence (Domicile) for Montana Tax Purposes?**

*Your legal residence is determined by all the facts and circumstances in your case. If you have two or more residences, your legal residence is the one you regard as your true home or principal residence. You cannot choose to make your home in one place for the general purposes of life and in another for tax purposes.*

*Your legal residence is usually the place where you maintain your most important family, social, economic, political and religious ties. A change of legal residence will not be accomplished by a temporary or prolonged absence from a place; you must have the intention not to return.*

**Nonresident**

A nonresident of Montana is a person who did not consider Montana to be his home at any time during 1995, although he may have been temporarily living here. Examples are: students going to school in Montana and military personnel stationed in Montana.

Nonresident individuals are subject to Montana income tax on all income included in Federal gross income which is derived from or connected with Montana sources. Intangible income, not related to a Montana business, is nontaxable.

**Part-Year Resident**

A part-year resident is a person who moved in or out of Montana during 1995 with the intention of establishing a new residence.

Part-year residents are subject to Montana tax on all income included in Federal gross income which is received while residing in Montana and on all income which is derived from or connected with Montana sources.

**Instructions For Nonresidents/Part-Year Residents****Income**

Refer to resident instructions beginning on page 4 for entries on lines 6 through 39 of Form 2.

**Line 40** - Complete Schedules III and IV to calculate your tax liability. See instructions for Schedules III and IV later on this page.

**Lines 41 through 66** - See full year resident instructions.

**INSTRUCTIONS FOR SCHEDULE III & IV****Income Reportable to Montana  
Schedule III, Form 2A, Page 2****Lines 106-116**

If you have income from Montana and from another source shown on the same schedule, you must attach a statement to the Montana return to identify the Montana income.

The following line by line instructions are for nonresidents and part-year residents with income reportable to Montana.

**Line 106****WAGES, SALARIES AND TIPS**

Enter the amount of wages, salaries and/or tips that were derived from Montana sources. These amounts should be shown on your W-2(s) from Montana employer(s). Be sure to attach the W-2(s) to the front of Form 2.

**Line 107****INTEREST INCOME**

If you are filing as a part-year resident enter the amount of interest income related to the time you were Montana resident(s). Include amounts from lines 7 and 21 from Form 2.

**If you are a nonresident, you must report interest income from installment sale(s) of real or tangible commercial or business property located in Montana.**

Nonresident income from interest on bank deposits, notes, dividends on capital stock of corporations, royalties from patents and copyrights and all other income from intangible property is not taxable to Montana.

**Line 108****DIVIDEND INCOME**

Enter the amount of dividend income received while you were a Montana resident. As an example, if you were a resident for one half of the year, and you receive a 1099 from an account, 50% of the reported dividend income would be taxable to Montana and reportable here.

**Line 109****BUSINESS INCOME**

Business income is the amount of net income or loss from a business, trade, or profession carried on in Montana. If you have more than one business, you may need to complete a separate Federal Schedule C to show the Montana business activities.

If you are a nonresident, the income received from any trade, business, profession or occupation carried on in Montana is taxable to Montana and reportable here. (Attach Form OFLT)

**Line 110****CAPITAL GAIN OR LOSS**

Enter the amount of gain or loss related to the sale(s) of Montana properties or assets. Remember, the gain from installment sales of Montana business/investment property is includable here and taxable to Montana.

**Line 111****SUPPLEMENTAL GAIN OR LOSS**

Enter here any supplemental gain or loss attributed to Montana property(s). If you are filing as a part-year resident, report any supplemental gain received while you were a resident or any gain related to Montana property(s).

**Line 112****TAXABLE PORTION OF SOCIAL SECURITY**

If you are a part year resident, a portion of your Social Security benefits may be taxable to Montana.

Complete and attach the Social Security worksheet to determine the amount of Social Security that is taxable for Montana. The amount taxable for Montana may differ from the taxable amount for Federal.

**Line 113****TAXABLE PENSIONS, ETC.**

If you are a part-year resident, enter the amount of pension income attributed to the time you resided in Montana. Remember, you must complete the pension exclusion worksheet on page 6 of the general instructions.

**Line 114****RENTS, ROYALTIES, PARTNERSHIPS, ETC.**

**Note:** In the following paragraphs, income refers to profit or loss.

**Rental income** is the net amount derived from or connected with real or tangible personal Montana property.

**Partnership income** is your share of any partnership income and deductions derived from Montana. Income is one of two types—passive or nonpassive. The type of income depends upon whether or not you materially participated in the activities of the partnership. If the income is passive, you are required to fill out a separate Form 8582 for Montana purposes. Your share of the partnership income includes income, capital gain and deductions from the partnership whether you actually received it or not. (Attach Form OFLT.)

**S Corporation income** is the shareholders' percentage of the corporations' net income and deductions derived from Montana. (Attach Form OFLT.)

**Estate and trust income** is the beneficiary's share of the income and deductions from a trust with nexus in Montana. (Attach Form OFLT.)

**Do not include on this line any passive loss add backs reported on line 23.**

**Line 115****FARM INCOME OR LOSS**

Report the farm income or loss attributed to Montana, following the same instructions as shown for line 16. Please attach a separate Schedule F if necessary, showing only the Montana farm activities. (Attach Form OFLT.)

**Line 116****OTHER INCOME OR LOSS**

Enter any other income attributed to Montana that is not identified on lines 106 through 115 here. This includes lottery winnings, State and Federal refunds, nonemployee compensation, etc. If you claimed any Federal taxes paid or withheld on your 1994 Montana return, your Federal refund is includable in your total Montana income to the extent the deduction resulted in a reduction of Montana income tax liability.

**Line 117****MONTANA TOTAL INCOME**

Add lines 106 through 116 and enter the result here and on line 118, Schedule IV.

**Tax Computation — Schedule IV, Lines 118-123 and Form 2, Line 40**

**Line 118**—Enter the amount from line 117, Schedule III.

**Line 119**

Total Income—Enter the total of lines 18, 21 and 22, Form 2.

**Line 120**

Divide the amount on line 118 by the amount on line 119. If your Montana total income is smaller than your Federal total income, you will arrive at a percent amount.

If your Montana total income is larger than your Federal total income, and the computed amount on line 120 is larger than 100%, use only 100%.

**Line 121**—Enter the amount from Form 2, line 39.

**Line 122**—Compute the tax on the amount shown on line 121, using the tax table on page 2, Form 2. Enter the tax on line 122.

**Line 123****NONRESIDENT/PART-YEAR RESIDENT TAX**

Multiply the percentage on line 120 by the amount on line 122. Enter the amount from line 123 on line 40, Form 2. This is your Montana Tax liability. Go to Form 2 and complete lines 40-66.